

## Decentralisation and Local Economic Development in Albania

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### Summary

Local governance in Albania has been the subject of several reforms over the last few years. The consolidation of local self-government units into 61 municipalities through the administrative and territorial reform was accompanied by the approval of a new law on local self-government, a new strategy for decentralization, and the devolution of some new functions to the local level. The completion of the legislative framework with a law dedicated to local finances was of particular importance for local governments. Nevertheless, while the available financial resources to the 61 municipalities are assessed to have followed an upward trend, their allocation seems to have had different effects on local economic development.

Stronger decentralization and fiscal autonomy at the local level leads to better services for citizens, and theoretically translates into favourable conditions for promoting local economic development. This article assesses the relationship between the local government decentralization processes undertaken after 2010 in Albania and local economic development. The results, based on data for the period 2010-2018, are different for municipalities of different sizes, demonstrating the need to complement decentralization reforms with instruments that enhance local capacity and are tailored to local needs. Furthermore, it is concluded that these findings are introductory and not exhaustive, as long as a commonly agreed indicator approximating local economic development is not set. However, the assessment brings added value to the deepening of knowledge on the effects of decentralization policies on the local economy and can inform further steps towards fiscal decentralization.

**Keywords:** Decentralization, Local Economic Development, Fiscal Autonomy, Asymmetric Decentralization, Disparities, Local Capacities, Albania

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## Introduction

The decentralization process in Albania has progressed at a slow pace and in waves, shifting over time in recent years in all dimensions: fiscal, administrative, political, and economic (Ahmad, et al., 2010). This process has materialized in the progressive and symmetrical transfer of administrative and fiscal authority from central to local government. This process is largely based on the theory of economic benefits that can be obtained through a higher level of vertical decentralization, reinforcing the potential role of local governments in economic development (Toska & Bejko (Gjika), 2018; Co-PLAN, 2019). The idea that local and regional development policies can be more effectively addressed at the subnational level is now widely accepted in Albania. Local administrations, with the level of autonomy they enjoy, are important actors in local economic development. However, the findings of this paper show that decentralization reforms have been accompanied with increased social and economic disparities at the municipal level (Toska and Bejko (Gjika), 2018) and at the county and regional level (Boeckhout et al., 2010; Shutina et al., 2015). Thus, while the process of fiscal decentralization seems to have a positive effect on the country's largest municipalities, with a high concentration of population and economic activities, the same cannot be said for smaller municipalities. The latter face major challenges in providing better services to citizens, especially given an absence of human resources. All this, together with the limited ability to orient investment policies towards local needs and potentials, seems to reduce the chances of these municipalities to promote local economic development (Dhrami & Bejko (Gjika), 2018; Imami et al., 2018).

Theories advocating for vertical decentralization are broadly based on two complementary hypotheses. The first is that local governments have information

advantages over central government, and consequently higher efficiency in public service delivery (Musgrave, 1959; Oates 1972, 1993; Rodríguez-Pose & Krøijer, 2009). The second is the hypothesis originally raised by Tiebout (1956) and further tested by Cantarero and Perez Gonzales (2009) and Yushkov (2015), according to which the freedom of population displacement from one territory to another, and competition among local governments will be a strong impetus to find the best balance between consumer-voter preferences and local self-government. Based on these considerations, and according to Davoodi and Zou (1998), policies aimed at delivering public services that are sensitive to local specificities (such as infrastructure, education, etc.) are more successful in promoting growth when defined locally, versus those determined by the central level, which fail to capture or ignore local differences. Following this, a decentralized fiscal system where local governments play an important role in delivering local public services can indirectly lead, among other things, to accelerated economic growth (Oates, 1993; Thiessen, 2003; Bartlett et al., 2018).

Although this link is theoretically asserted, empirical findings suggest a range of relationships (from positive to negative to indeterminate or no effect) between decentralization and economic growth. The quality of the data used and the duration of the data series, the indicators used to approximate the concept of decentralization and economic growth, the models used to assess this relationship, and the inability to isolate fiscal decentralization (both administratively and politically) are some of the technical aspects that are estimated to influence the determination of the relationship between indicators. Also, the relative success of decentralization is the result not only of the decentralization model designed and implemented, but also of factors such as country-specific characteristics, the stage of development it is in, the level of democracy, and especially the

existence of effective and strong institutions at all levels of government (Dabla – Norris, 2006). Consequently, the level and patterns of decentralization are very different from one country to another. For example, in the Organisation for Economic Co-operation and Development (OECD) countries the local government sector accounted for about 16.2% of Gross Domestic Product (GDP), 40.4% of public spending, and about 56.9% of public investment in 2016. In South East European countries, local budgets made up only 5.9% of GDP on average and 16.9% of public spending in 2017 (NALAS, 2018).

In Albania, decentralization reforms play an important part in the government's reform program, and the deepening of decentralization continues to be widely suggested by international organizations. Meanwhile, empirical studies and findings suggest that the effects of decentralization on local economies are far from what expected and to have deepened inequalities at local level (Toska & Bejko (Gjika), 2018). In this context, the purpose of this policy paper is to empirically assess the existence (or not) of a relationship between decentralization reforms and the improvement of local economic development in Albania. Research on this relationship has not previously been conducted for Albania. This paper carries the added value of informing policy-making on further steps towards fiscal decentralization, improving local economic development, and consequently improving the socio-economic conditions of communities. This policy paper also contributes to the enrichment of the literature on local government in Albania.

### **The Relationship between Decentralisation and Local Economic Development**

To assess the existence of a relationship between fiscal decentralization (assessed against the right to generate revenues and make expenditures) and economic growth (measured by some proxy indicators), simple

statistical indicators have been used since the construction of econometric models is impossible due to short and limited time series. Initially, it is assessed the performance of some decentralization proxies making use of national level data and is tested whether there is a relationship between them and the economic development proxy indicators. Further, the same is done with indicators at the municipal level. In both cases, the Pearson correlation coefficient is used to assess the existence of a relationship between decentralization indicators and local economic development ones.

At national level, the economic development indicator is proxied by the per capita income indicator, measured as the ratio of nominal GDP to average annual population, for the period 2010-2018. In the literature, a number of indicators have been used to measure and assess the level of decentralization. In this analysis two categories of Proxy indicators will be used to assess the decentralization level: proxies on the revenues raising responsibilities and proxies on expenditure assignment responsibilities' over the period 2010-2018:

- Ratio of expenditures / revenues of municipalities (with own source, freely disposable and total revenues) to general government expenditures / revenues (appendix 1);
- Ratio of expenditures / revenues of municipalities (with own source, freely disposable and total revenues) to nominal GDP (appendix 1).

In nominal terms, decentralization indicators show an upward trend over the considered period, marking the highest level in 2018 (see Appendix 1). In this regard, the increase and the stabilization of the size of the unconditional and specific transfers is estimated to have been particularly influential. The Pearson indicator analysis suggests a positive relationship between economic development indicators and indicators used to assess fiscal

decentralization in Albania. Besides that, the relationship between indicators turns out to be strong (with correlation indices above

0.72) and significant (with low probability of error).

**Table 1.** Relationship between decentralization and economic development, indicators at national level

Indicators on expenditure assignment responsibilities:	<i>GDP per capita</i>	Indicators on revenue raising responsibilities:	<i>GDP per capita</i>
	<i>Pearson Correlation Coefficient</i>		<i>Pearson Correlation Coefficient</i>
Municipalities' own source expenditures to general government expenditures	0.792*	Municipalities' own source revenues to general government revenues	0.786*
Municipalities' expenditures with freely disposable revenues to general government expenditures	0.786*	Municipalities' freely disposable revenues to general government revenues	0.786*
Municipalities' total expenditures to general government expenditures	0.763*	Municipalities' total revenues to general government revenues	0.720*
Municipalities' own source expenditures to nominal GDP	0.824**	Municipalities' own source revenues to nominal GDP	0.824**
Municipalities' expenditures with freely disposable revenues to nominal GDP	0.800**	Municipalities' freely disposable revenues to nominal GDP	0.855*
Municipalities' total expenditures to nominal GDP	0.790*	Municipalities' total revenues to nominal GDP	0.790*

**Source:** INSTAT, Ministry of Finance and Economy, [www.financatvendore.al](http://www.financatvendore.al) and authors' calculations

\* Correlation significant at the 0.05 level (2-tailed).

\*\* Correlation significant at the 0.01 level (2-tailed).

In simpler terms, the results suggest that there is a positive relationship at national level between fiscal decentralization and the growth of per capita income. Referring to the indicators, this relationship is positive in both dimensions of decentralization considered, in the right to raise revenues and the right to spend. However, the positive relationship between variables does not imply a causal relationship between the level of fiscal decentralization and economic development. In other words, delegating the right to spend and generate revenue in municipalities and closer to communities can positively contribute to local economic development and translate into more income for citizens.

At municipal level, fiscal decentralisation will be proxied by referring to the ratio of own source revenues of municipalities (revenues from taxes, fees and charges, asset management etc.) to total financial resources of municipalities (calculated as the sum of own source revenues, unconditional and specific/sectoral transfer, conditional transfer and shared taxes). Such an indicator

is widely used to assess the financial autonomy of municipalities. Subject to missing data on GDP at the municipality level (or a similar indicator), local economic development will be approximated by using four proxies:

- Small business tax revenues per capita (proxy 1);
- Immovable property taxes (building, agricultural and urban land taxes) revenues per capita (proxy 2);
- Number of active enterprises for 10,000 inhabitants (proxy 3);
- Infrastructure impact tax revenues per capita (proxy 4).

**Table 2.** Relationship between decentralization and economic development, indicators at municipal level

	Local Economic Development				
	Proxy Indicator 1 <i>(small business tax revenue per capita)</i>	Proxy Indicator 2 <i>(immovable property tax revenue per capita)</i>	Proxy Indicator 3 <i>(number of active enterprises for 10,000 inhabitants)</i>	Proxy Indicator 4 <i>(infrastructure impact tax revenue per capita)</i>	Year
Fiscal Decentralization Indicator <i>(Financial Autonomy)</i>	Pearson Correlation Coefficient				
	0.628 **	0.347 **		-0.126	2010
	0.622 **	0.338 **		0.456 **	2011
	0.594 **	0.346 **		0.642 **	2012
	0.648 **	0.358 **	0.734 **	0.609 **	2013
	0.638 **	0.430 **	0.752 **	0.548 **	2014
	0.556 **	0.579 **	0.555 **	0.566 **	2015
	0.422 **	0.488 **	0.425 **	0.558 **	2016
	0.589 **	0.606 **	0.355 **	0.706 **	2017
0.423 **	0.539 **		0.690 **	2018	

**Source:** INSTAT, Ministry of Finance and Economy, [www.financatvendore.al](http://www.financatvendore.al) and authors' calculations

\* Correlation significant at the 0.05 level (2-tailed).

\*\* Correlation significant at the 0.01 level (2-tailed).

Overall, the analysis of the relationship between the indicators used (at the level of the municipality) suggests the existence of a positive relationship between fiscal decentralization (financial autonomy) and local economic development. This relationship is positive, relatively strong, significant (with low probability of error), and volatile from year to year.

The strength of the relationship over time is assessed to be determined by the legislative changes that occurred, as in the case of the use of Proxy Indicator 1 (small business tax revenue per capita). In this case, frequent changes in central government fiscal policy related to small business tax/simplified profit tax (such as changes for the tax threshold, tax exemptions, and tax administration by the central tax administration) led to the decline of its contribution to the local budget and the loss of an incentivizing instrument for local economic development (see Appendix 3). Consequently, the relationship between decentralization indicators and that of local economic development appears to have faded from one year to the next.

The relationship between Proxy Indicator 2 for economic development (the immovable property tax per capita) and the fiscal

decentralization indicator turns out to be positive and its strength has increased from year to year. This may be a result of the increase in the property tax rate in recent years, as well as the improvement in the level of revenue collection from this tax through the use of Water and Sewerage Utilities as tax agents in some municipalities (see Appendix 4).

In the case of Proxy Indicator 3 (number of active enterprises per 10,000 inhabitants), the relationship between the indicators turns out to have faded from year to year. This result, which goes in the opposite direction of the other estimated approximations, may have been influenced by the uneven distribution of businesses in the territory or their concentration in the Tirana - Durres area and in other large municipalities (see Appendix 4). This finding is in line with a series of discussions and questions raised in Albania regarding the effects of the decentralization reforms undertaken in recent years. The analysis of the data shows that although at the national level the indicators are improving, at the municipal level, the situation presents significant differences among them, due to the concentration of population and



active enterprises in large municipalities such as Tirana, Elbasan, Durrës, Fier, Korça, and Vlora, among others. This has often been associated with the deepening of social and economic disparities between municipalities, disparities which are assessed to be even more pronounced between rural and urban territories.

The relationship of Proxy Indicator 4 (infrastructure impact tax revenue per capita) with the indicator for fiscal decentralization follows a U-shape, and has been intensified in the last two years. This fully coincides with the performance of the revenues generated from the infrastructure impact tax on new constructions, which witnessed accelerated growth over the last two years led by the Tirana Municipality (see Appendix 6). Even in the case of this relationship, we note that the improvement of fiscal decentralization indicators is associated with the improvement of economic growth in cases of municipalities with high concentrations of population and economic activities.

The indicators used at the national and local level to assess the relationship between decentralization reforms and their effects on local economic development are not the same (which makes comparisons difficult). Thus, direct comparisons cannot be made. Despite this limitation, some general assessments and patterns can be identified. In general, the process of fiscal decentralization in Albania is still not fully consolidated. It tends to focus mainly on aspects of expenditure assignments at the local level (excluding large capital expenditures financed with conditional grants), and to a lesser extent on revenue raising rights and the design of fiscal policies. Findings suggest that at the national level the relationship between economic development (income per capital) and fiscal decentralization turns out to be almost as significant and robust as in terms of the right to make expenditures, as well as the right of local governments to generate revenues.

Findings based on indicators at the local level, while broadly corroborating findings from indicators at the national level, reaffirm the discussion and questions raised about the effects of decentralization processes on the deepening of socio-economic disparities between local government units in Albania. The situation is not the same for all Local Government Units (LGUs) and the pronounced economic disparities between municipalities run the risk of deepening as a result of the effects of the decentralization model implemented in the country. Thus, the decentralization of a number of functions at the local level, combined with the lack of human capacity to manage them, translates not only into a challenge for municipalities to respond to the needs of the citizen but also to a reduction in the quality of local services provided. In practice, it seems as if the benefits expected from the intensification of decentralization have not been uniformly translated to all municipalities, and indeed the competences of municipalities in promoting local economic development are limited. In addition, the limited authority of municipalities to undertake strategic investment policies at the local level directly affects the quality of decentralization and its effect in addressing the needs and potentials of local territories and communities. The lack of authority to introduce and implement effective local fiscal policies, especially in smaller municipalities, often leads to the phenomenon of unfunded local mandates with consequences for local economic development.

## Conclusions and Recommendations

The progress of the decentralization process, in particular its fiscal dimension, remains one of the most important issues in Albania, especially following the implementation of the territorial and administrative reform of 2014. The expectation of actors advocating more fiscal decentralization is that it will contribute positively to governance and promote economic development and

growth. Often, decentralization has been viewed as a solution for issues related to the democratisation of governance and/or lack of efficiency and effectiveness in public services provision. While there is not an optimal solution as to how much to decentralize, the effects of this process on the economy will largely depend on the way this process is designed and implemented, the adequacy of human resources in governance, and the quality of governance at many levels (which should be adapted based on country-specific characteristics).

In this article, we have tried to assess through an empirical analysis whether more decentralization brings more economic development by exploring the relationship between fiscal decentralization and economic development indicators. Findings using indicators at the national level suggest a positive and strong relationship between fiscal decentralization and local economic development in Albania over the period 2010-2018. This relationship is strong and significant in both aspects of fiscal decentralization, the rights for raising revenues and the expenditure assignment competences. Although encouraging, this result should be interpreted with caution as the analysis of indicators at the national level may hide aspects and dynamics that are evidenced in the analysis using indicators at the municipal level and at different time periods.

Findings using data at the municipal level show a more dynamic landscape, where the relationship between fiscal decentralization and economic development indicators is again positive, but its strength varies over time (weakening in the case of three indicators used as proxies for economic development at the municipal level), signalling non-uniformly distributed decentralization benefits at the local level. The positive, but varying relationship between the considered variables raises questions about the decentralization model implemented in the country. Subject to existing disparities and the strengthening

of the role of municipalities in governance, the current model of a symmetric decentralization of competencies and responsibilities from the central to local governments may not be the best solution in the case of Albania. A pilot asymmetrical decentralization model could be attempted, given the presence of a municipality like Tirana, which operates in completely different conditions than those of the other 60 municipalities in the country. A vertical transfer of competencies and responsibilities can occur: in political terms (recognizing special legal status); administrative terms (transferring competencies based on the capabilities and capacities of municipalities or setting salaries of staff independently); and fiscal terms (similar municipalities might have similar rights in raising revenues and expenditure assignments). Besides the municipality of Tirana, small municipalities with limited capacities can benefit from an asymmetric decentralization model. For example, the municipalities of Bulqizë, Klos, and Mat (among others), rich in natural resources, could be granted the right to impose a tax/fee for their use. In this way, municipalities, with the differences that characterize them, may be part of a place-informed program adapted to their specificities. Studies show that asymmetric assignment of responsibilities and rights at the local level has been a common practice since at least the 1950s and continues to be followed in many countries today (Allain-Dupré, 2018).

In conclusion, the discussion of the effects of fiscal decentralization on local economic development in the case of Albania remains to be explored further, given that the present findings are preliminary and not sufficient to draw conclusions. The main constraints relate to the availability of data in both typology and time, especially indicators to approximate local economic development at the municipal level. In this regard, detailing statistics at the level of the municipality would be of particular importance (employment rate,

unemployment rate, gross value added, etc.), in order to enable further analysis.

### Appendix 1. Indicators for local economic development and decentralisation at national level

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Per capita income ratio of nominal GDP (in ALL) to average population	425,553	447,689	459,527	466,325	482,954	497,902	512,934	540,418	574,811
<b>Responsibility to raise revenues:</b>									
Municipalities' own source revenues to general government revenues	4.0%	3.8%	3.6%	3.7%	3.9%	3.4%	4.1%	4.7%	5.4%
Municipalities' freely disposable revenues to general government revenues	7.6%	7.3%	6.8%	7.5%	7.5%	6.7%	8.8%	10.1%	11.0%
Municipalities' total revenues to general government revenues	15.5%	14.4%	13.7%	15.2%	15.3%	13.7%	15.1%	17.6%	18.5%
Municipalities' own source revenues to nominal GDP	1.0%	1.0%	0.9%	0.9%	1.0%	0.9%	1.1%	1.3%	1.5%
Municipalities' freely disposable revenues to nominal GDP	2.0%	1.9%	1.7%	1.8%	2.0%	1.8%	2.4%	2.8%	3.0%
Municipalities' total revenues to nominal GDP	4.1%	3.7%	3.4%	3.7%	4.0%	3.6%	4.2%	4.9%	5.0%
<b>Expenditure assignment responsibilities:</b>									
Municipalities' own source expenditures to general government expenditures	3.6%	3.4%	3.2%	3.1%	3.3%	3.0%	3.9%	4.4%	5.1%
Municipalities' expenditures with freely disposable revenues to general government expenditures	8.1%	7.1%	6.9%	7.2%	7.2%	7.5%	9.9%	10.4%	10.1%
Municipalities' total expenditures to general government expenditures	13.9%	12.6%	12.1%	12.6%	12.8%	11.8%	14.2%	16.4%	17.5%
Municipalities' own source expenditures to nominal GDP	1.0%	1.0%	0.9%	0.9%	1.0%	0.9%	1.1%	1.3%	1.5%
Municipalities' expenditures with freely disposable revenues to nominal GDP	2.4%	2.1%	2.0%	2.1%	2.3%	2.3%	2.9%	3.1%	2.9%
Municipalities' total expenditures to nominal GDP	4.1%	3.7%	3.4%	3.7%	4.0%	3.6%	4.2%	4.9%	5.0%

**Source:** INSTAT, Ministry of Finance and Economy, [www.financatvendore.al](http://www.financatvendore.al) and authors' calculations

### Appendix 2. Own source revenues to total revenues indicator (used as a proxy for fiscal decentralization)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Belsh	6.9%	8.4%	9.8%	4.4%	6.1%	6.2%	16.4%	8.1%	7.2%
Berat	21.2%	22.3%	21.2%	20.9%	21.6%	23.8%	21.7%	23.1%	21.7%
Bulqizë	7.7%	9.3%	7.5%	7.8%	5.6%	5.6%	5.4%	7.1%	4.9%
Cërrik	9.3%	10.3%	12.4%	7.8%	10.8%	9.8%	16.6%	10.8%	12.1%
Delvinë	14.7%	13.7%	18.4%	12.8%	13.9%	14.0%	20.6%	15.0%	10.3%
Devoll	12.3%	14.3%	12.4%	12.9%	11.7%	14.4%	14.9%	11.3%	12.7%
Dibër	5.7%	5.9%	5.5%	6.4%	5.1%	5.1%	4.5%	4.2%	4.0%
Divjakë	20.4%	18.1%	20.3%	13.0%	15.8%	12.0%	13.7%	9.0%	12.8%
Dropulli	21.9%	22.2%	24.5%	23.3%	23.0%	26.7%	26.3%	18.2%	13.3%
Durrës	31.3%	38.5%	29.1%	31.7%	33.0%	38.7%	36.6%	35.2%	30.7%
Elbasan	19.8%	23.0%	20.8%	19.5%	23.9%	18.1%	17.9%	17.0%	17.1%
Fier	21.5%	24.4%	31.3%	22.5%	22.9%	24.9%	20.9%	17.3%	21.5%
Finiq	12.2%	11.0%	16.8%	13.3%	18.2%	14.1%	18.2%	14.5%	13.5%
Fushë Arrëz	6.3%	6.3%	5.4%	5.6%	6.0%	5.4%	7.6%	6.7%	4.8%
Gjirokastrë	28.1%	29.4%	31.3%	26.2%	23.7%	24.3%	21.4%	17.1%	16.2%
Gramsh	9.9%	8.8%	10.2%	8.1%	9.8%	10.0%	5.8%	6.1%	6.6%
Has	2.0%	2.2%	2.9%	2.4%	2.5%	2.9%	2.3%	2.5%	2.0%
Himarë	39.7%	46.8%	37.0%	30.7%	34.1%	36.8%	46.8%	30.7%	33.7%
Kamëz	18.1%	22.9%	22.5%	23.6%	23.4%	30.3%	31.4%	32.6%	39.0%
Kavajë	27.5%	24.4%	30.2%	28.8%	26.6%	29.5%	29.5%	23.6%	30.0%
Këlcyrë	8.1%	10.2%	9.0%	6.4%	9.7%	8.5%	5.6%	3.8%	3.5%



Klos	3.0%	1.7%	3.3%	3.6%	3.5%	4.9%	6.5%	4.7%	5.4%
Kolonjë	13.5%	13.9%	12.7%	10.7%	11.4%	14.4%	10.0%	10.9%	10.0%
Konispol	18.1%	19.6%	15.2%	16.4%	16.1%	18.5%	15.4%	14.4%	8.0%
Korçë	26.4%	22.7%	27.9%	22.9%	27.3%	26.2%	29.2%	21.6%	24.5%
Krujë	23.3%	16.4%	21.9%	19.7%	17.8%	20.3%	25.2%	17.7%	24.5%
Kuçovë	17.2%	17.0%	20.0%	14.7%	19.9%	20.6%	17.7%	19.3%	15.4%
Kukës	7.2%	5.8%	5.5%	5.1%	5.2%	6.4%	7.9%	6.6%	5.7%
Kurbini	7.4%	9.3%	8.9%	5.5%	7.6%	6.9%	6.5%	6.6%	6.2%
Lezhë	20.9%	24.5%	20.9%	24.0%	27.5%	24.6%	22.0%	22.4%	25.0%
Libohovë	8.6%	7.5%	8.3%	7.2%	11.0%	10.3%	12.6%	7.1%	3.8%
Librazhd	12.7%	13.4%	11.2%	7.6%	7.3%	8.3%	8.7%	8.6%	7.7%
Lushnjë	21.9%	25.6%	25.6%	16.6%	18.9%	23.1%	23.0%	19.1%	18.0%
Malësi e Madhe	5.9%	4.5%	8.4%	4.8%	9.9%	7.6%	17.2%	4.7%	7.3%
Maliq	10.2%	10.1%	10.1%	7.4%	9.1%	10.0%	11.3%	9.6%	11.4%
Mallkastër	16.7%	23.5%	22.9%	20.4%	19.1%	14.7%	21.2%	26.1%	31.0%
Mat	7.1%	7.9%	7.6%	7.6%	7.5%	9.0%	7.7%	8.9%	6.8%
Memaliaj	4.5%	5.5%	4.7%	3.2%	4.1%	5.9%	5.7%	4.9%	3.3%
Mirditë	6.6%	6.2%	8.8%	4.4%	4.7%	4.2%	6.8%	3.8%	6.1%
Patos	11.9%	20.4%	32.5%	21.0%	22.3%	18.0%	19.6%	11.5%	27.5%
Peqin	8.8%	10.9%	9.6%	7.1%	9.4%	10.8%	9.3%	5.5%	7.1%
Përmet	16.3%	14.4%	15.4%	12.5%	11.3%	14.6%	13.9%	10.2%	9.4%
Pogradec	19.4%	22.6%	17.0%	12.4%	11.0%	13.0%	13.7%	6.2%	14.4%
Poliçan	10.6%	11.9%	13.6%	13.1%	13.7%	15.9%	15.2%	14.8%	6.6%
Përrenjas	12.1%	12.7%	10.8%	7.3%	7.4%	8.0%	7.9%	10.5%	5.9%
Pukë	7.6%	6.2%	6.9%	5.8%	9.1%	7.6%	7.7%	4.1%	6.2%
Pustec	5.4%	10.2%	7.9%	7.1%	4.9%	7.9%	8.0%	6.7%	1.8%
Roskovec	19.7%	31.9%	37.3%	25.0%	25.6%	34.4%	35.0%	28.6%	21.0%
Rrogozhinë	24.4%	21.6%	22.9%	18.1%	22.6%	22.2%	18.5%	12.7%	14.8%
Sarandë	35.2%	51.2%	51.9%	37.7%	42.1%	28.0%	26.4%	36.9%	28.5%
Selenicë	6.6%	7.2%	9.8%	6.4%	10.2%	10.3%	11.4%	13.2%	10.2%
Shijak	23.1%	36.3%	27.1%	18.4%	20.0%	33.0%	30.7%	26.6%	22.4%
Shkodër	16.3%	19.1%	14.1%	17.1%	16.6%	17.5%	18.8%	21.7%	22.8%
Skrapar	6.3%	7.9%	12.4%	9.2%	10.7%	18.6%	20.9%	11.3%	14.6%
Tepelenë	8.7%	11.7%	8.0%	8.4%	5.8%	6.1%	5.9%	9.2%	10.2%
Tiranë	57.9%	53.8%	55.2%	54.2%	56.2%	52.0%	57.1%	61.4%	60.6%
Tropojë	4.7%	2.6%	3.5%	10.2%	5.5%	6.9%	13.2%	6.1%	6.4%
Ura Vajgurore	16.9%	15.0%	19.5%	14.1%	23.2%	22.3%	18.8%	16.8%	19.6%
Vau i Dejës	10.4%	11.5%	10.0%	12.6%	13.7%	16.5%	13.0%	7.6%	11.4%
Vlorë	42.7%	36.6%	33.8%	30.1%	29.6%	24.9%	26.4%	22.8%	24.9%
Vorë	37.1%	52.0%	60.3%	51.3%	52.8%	49.9%	57.8%	49.4%	54.9%
<b>Total</b>	<b>25.6%</b>	<b>26.6%</b>	<b>26.4%</b>	<b>24.4%</b>	<b>25.6%</b>	<b>25.2%</b>	<b>27.2%</b>	<b>27.0%</b>	<b>29.1%</b>

**Source:** INSTAT, Ministry of Finance and Economy, [www.financatvendore.al](http://www.financatvendore.al) and authors' calculations

### Appendix 3. Small Business Tax Revenues per Capita in ALL (used as Proxy Indicator 1 for local economic development)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Belsh	222	132	337	203	304	301	72	50	23
Berat	955	919	933	749	761	888	175	101	66
Bulqizë	310	330	199	218	218	349	108	36	32
Cërrik	263	344	325	215	367	325	72	28	32
Delvinë	684	811	455	378	470	442	106	24	26
Devoll	416	453	377	301	392	393	89	30	18
Dibër	203	263	245	176	136	228	67	12	24
Divjakë	350	340	381	201	320	434	97	30	16
Dropulli	1108	1523	505	679	764	953	98	66	65
Durrës	1244	1222	1050	991	854	848	284	135	169
Elbasan	651	558	587	477	520	608	143	60	57
Fier	750	845	754	695	376	653	205	61	60

Finiq	389	393	223	216	395	369	81	7	37
Fushe Arrëz	106	160	159	157	102	198	43	5	15
Gjirokastrë	1347	1641	988	990	770	926	209	74	92
Gramsh	426	399	572	339	341	354	46	33	25
Has	88	127	64	35	78	173	37	17	12
Himarë	866	1258	730	703	837	1209	214	268	446
Kamëz	494	438	454	393	266	457	39	30	38
Kavajë	1848	1542	1166	1024	725	796	190	207	116
Këlcyrë	372	385	460	200	297	401	93	19	43
Klos	197	115	152	145	148	175	28	29	24
Kolonjë	1023	1259	791	804	650	597	68	42	36
Konispol	274	371	250	187	239	310	137	38	30
Korçë	1372	1325	1291	1203	686	903	244	162	169
Krujë	215	230	242	126	233	327	153	31	67
Kuçovë	624	396	805	461	597	521	162	37	70
Kukës	136	141	28	189	90	184	57	15	25
Kurbin	352	354	267	198	245	337	80	44	32
Lezhë	436	649	400	344	504	650	176	72	114
Libohovë	260	319	173	213	237	285	59	54	155
Librazhd	444	469	502	373	280	338	64	25	21
Lushnjë	620	646	687	460	451	623	130	59	39
Malësi e Madhe	154	136	113	97	106	180	50	15	18
Maliq	313	308	203	182	237	325	95	15	28
Mallakastër	283	296	417	229	320	375	66	7	14
Mat	438	561	265	322	283	300	78	42	18
Memaliaj	225	185	136	111	115	215	90	43	39
Mirditë	395	493	339	327	367	380	96	13	19
Patos	536	574	529	429	199	408	90	33	18
Peqin	313	442	303	245	315	453	119	21	28
Përmet	759	994	267	387	538	611	92	28	28
Pogradec	670	701	738	496	402	457	87	42	25
Poliçan	548	471	559	375	476	432	48	23	18
Përrenjas	735	586	460	425	239	250	60	16	24
Pukë	404	447	240	288	236	261	37	9	9
Pustec	75	61	73	16	2	197	40	0	6
Roskovec	250	313	223	164	193	379	79	63	65
Rrogozhinë	484	684	469	394	437	468	92	34	99
Sarandë	1845	2606	1717	1780	1709	1946	489	216	362
Selenicë	181	183	131	129	225	213	94	15	57
Shijak	658	717	516	503	555	636	169	124	76
Shkodër	597	885	401	569	496	569	94	34	58
Skrapar	302	313	549	309	364	348	46	50	42
Tepelenë	493	701	302	346	434	643	519	376	512
Tiranë	1668	1770	1602	1587	1140	1404	517	287	292
Tropojë	211	146	311	236	113	213	37	12	38
Ura Vajgurores	375	230	482	239	501	488	96	70	43
Vau i Dejës	173	260	108	121	196	218	39	11	18
Vlorë	1132	1447	1018	877	681	807	257	116	140
Vorë	672	636	540	526	385	339	83	144	106
<b>Total</b>	<b>851</b>	<b>909</b>	<b>782</b>	<b>722</b>	<b>588</b>	<b>716</b>	<b>214</b>	<b>108</b>	<b>115</b>

**Source:** INSTAT, Ministry of Finance and Economy, [www.financatvendore.al](http://www.financatvendore.al) and authors' calculations

**Appendix 4. Immovable property tax revenues per capita in ALL (used as proxy 2 for local economic development)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Belsh	346	309	355	261	587	419	2,976	1,026	832
Berat	549	567	570	611	1,010	893	1,017	1,474	976
Bulqizë	30	22	37	24	23	20	58	40	47
Cërrik	499	452	499	418	765	537	1,394	832	983
Delvinë	522	362	628	381	529	612	929	860	745
Devoll	302	282	415	341	479	473	598	742	948
Dibër	89	84	86	93	142	105	168	164	168
Divjakë	733	537	725	544	1,172	973	1,275	965	1,093
Dropulli	2,838	2,798	3,611	2,906	3,265	3,671	5,591	4,262	4,036
Durrës	727	735	841	768	1,566	1,833	1,477	1,549	1,593
Elbasan	587	526	566	489	822	937	1,038	1,036	1,087
Fier	693	623	1,020	878	1,520	1,508	1,399	1,537	1,813
Finiq	1,309	1,366	1,472	1,436	1,882	1,580	2,696	2,059	2,086
Fushe Arrëz	350	226	545	488	1,165	661	828	706	616
Gjirokastrë	662	654	720	707	961	943	988	939	1,010
Gramsh	218	197	222	243	354	425	375	415	421
Has	50	31	64	87	160	112	80	99	47
Himarë	938	760	911	1,133	1,097	1,520	1,666	2,268	2,158
Kamëz	320	388	433	388	507	732	992	821	786
Kavajë	811	700	876	784	1,644	1,687	2,148	1,781	1,866
Këlcyrë	479	385	685	513	894	594	560	638	756
Klos	47	30	51	53	63	101	133	142	164
Kolonjë	488	458	530	433	621	588	573	642	813
Konispol	1,031	1,041	962	833	1,015	917	1,774	1,497	1,373
Korçë	690	653	815	763	1,155	1,318	1,826	1,590	1,615
Krujë	431	480	530	541	1,075	898	816	919	1,360
Kuçovë	561	431	512	406	916	792	601	536	367
Kukës	29	31	138	69	122	95	151	265	303
Kurbina	97	104	181	113	189	210	294	322	182
Lezhë	329	242	314	254	469	437	694	811	759
Libohovë	575	487	528	656	823	797	1,321	990	863
Librazhd	124	126	140	143	264	390	349	303	418
Lushnjë	603	553	649	526	1,091	1,160	1,586	1,319	1,310
Malësi e Madhe	90	111	169	156	184	206	276	219	287
Maliq	410	328	472	351	554	507	731	707	1,223
Mallakastër	617	704	383	288	494	551	694	426	2,074
Mat	151	126	155	212	305	214	263	282	290
Memaliaj	395	202	226	221	342	417	861	592	356
Mirditë	46	37	63	41	74	63	162	190	220
Patos	1,115	1,642	3,369	1,973	2,779	2,606	995	1,041	932
Peqin	296	325	271	252	398	440	754	554	660
Përmet	403	353	411	405	635	596	727	567	634
Pogradec	223	220	316	350	452	423	678	648	591
Poliçan	948	777	1,216	818	1,681	1,515	1,602	1,500	1,063
Përrenjas	82	87	109	81	179	174	201	192	206
Pukë	248	171	267	368	401	575	362	338	274
Pustec	70	402	200	141	248	371	324	257	119
Roskovec	1,387	2,432	3,001	3,478	4,845	4,186	1,727	5,055	5,298
Rrogozhinë	958	848	1,016	999	1,716	1,508	1,445	1,461	1,561
Sarandë	759	836	915	943	1,919	2,218	3,706	3,570	3,382
Selenicë	709	636	1,135	873	1,303	1,490	1,851	1,086	797
Shijak	526	595	569	642	1,345	1,477	1,557	1,888	1,730
Shkodër	289	323	383	361	552	562	680	728	929
Skrapar	272	367	989	561	596	1,115	1,116	770	836
Tepelenë	504	519	446	463	560	477	555	832	437
Tiranë	786	768	1,015	1,021	1,748	1,997	2,665	3,004	3,234

Tropojë	364	57	75	788	116	115	117	140	123
Ura Vajurores	721	679	549	492	1,111	1,204	1,173	1,285	1,275
Vau i Dejës	426	419	394	486	671	644	736	641	876
Vlorë	580	496	569	459	837	871	1,197	1,164	1,374
Vorë	1,486	1,316	1,741	1,828	3,112	3,725	4,076	4,504	5,060
<b>Total</b>	<b>551</b>	<b>538</b>	<b>679</b>	<b>635</b>	<b>1,073</b>	<b>1,151</b>	<b>1,376</b>	<b>1,439</b>	<b>1,544</b>

**Source:** INSTAT, Ministry of Finance and Economy, [www.financatvendore.al](http://www.financatvendore.al) and authors' calculations

**Appendix 5.** Number of active enterprises per 10,000 inhabitants (used as proxy 3 for local economic development)

	2013	2014	2015	2016	2017
Belsh	13	15	77	102	104
Berat	36	33	48	55	59
Bulqizë	14	16	22	21	20
Cërrik	16	17	40	52	53
Delvinë	32	33	38	52	54
Devoll	20	23	69	86	86
Dibër	13	13	19	20	21
Divjakë	24	24	77	84	87
Dropulli	67	67	78	86	88
Durrës	45	41	56	57	56
Elbasan	33	34	42	45	44
Fier	34	35	58	60	61
Finiq	27	27	33	38	39
Fushe Arrëz	21	18	19	18	15
Gjirokastrë	48	49	62	72	72
Gramsh	19	20	24	28	28
Has	9	9	12	16	19
Himarë	67	73	84	89	103
Kamëz	18	18	27	27	27
Kavajë	44	37	58	61	58
Këlcyrë	25	21	40	54	65
Klos	11	11	13	11	11
Kolonjë	39	41	41	58	59
Konispol	18	21	54	70	78
Korçë	42	45	55	66	63
Krujë	24	20	31	31	31
Kuçovë	35	31	44	47	46
Kukës	13	13	19	21	22
Kurbini	18	18	28	29	28
Lezhë	28	31	44	53	51
Libohovë	12	11	26	37	42
Librazhd	19	21	25	27	27
Lushnjë	34	34	72	81	83
Malësi e Madhe	16	13	53	66	73
Maliq	15	16	57	70	73
Mallakastër	25	22	30	31	29
Mat	21	21	26	28	27
Memaliaj	13	10	21	27	28
Mirditë	19	18	24	26	26
Patos	26	24	41	39	38

Peqin	18	19	29	44	45
Përmet	41	37	48	65	70
Pogradec	29	31	37	43	41
Poliçan	24	23	33	43	41
Përrenjas	14	14	19	19	20
Pukë	21	19	26	26	24
Pustec	5	7	33	35	34
Roskovec	20	20	59	62	64
Rrogozhinë	23	20	33	46	46
Sarandë	103	99	108	113	114
Selenicë	17	16	27	29	36
Shijak	32	31	41	39	37
Shkodër	33	30	52	55	55
Skrapar	22	19	24	44	48
Tepelenë	37	32	49	74	84
Tiranë	74	78	82	80	82
Tropojë	13	12	19	23	26
Ura Vajgurores	24	27	76	84	92
Vau i Dejës	14	14	31	37	39
Vlorë	53	55	71	62	62
Vorë	32	34	37	35	37
<b>Total</b>	<b>38</b>	<b>39</b>	<b>53</b>	<b>56</b>	<b>57</b>

Source: INSTAT and authors' calculations

#### Appendix 6. Infrastructure impact tax revenues per capita in ALL (used as proxy 4 for local economic development)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Belsh	12	209	98	12	16	28	147	654	77
Berat	409	457	8	111	34	313	389	1,072	808
Bulqizë	132	217	50	171	2	20	65	103	126
Cërrik	139	93	85	68	18	116	370	565	226
Delvinë	370	262	3	13	82	16	83	74	175
Devoll	205	209	110	120	27	26	196	184	82
Dibër	144	121	145	239	25	66	108	71	115
Divjakë	213	186	40	29	45	52	367	315	384
Dropulli	380	594	188	378	412	442	1,526	2,246	1,960
Durrës	2,206	1,865	848	1,141	886	1,251	1,618	2,175	1,306
Elbasan	383	850	261	304	122	365	478	574	383
Fier	951	1,173	833	516	354	177	266	497	653
Finiq	40	54	221	63	139	-	4	51	141
Fushe Arrëz	5	480	178	388	71	-	3	208	100
Gjirokastrë	553	714	284	103	36	47	214	219	299
Gramsh	40	46	4	16	99	26	96	126	102
Has	95	143	83	38	9	17	23	84	65
Himarë	469	771	1,523	665	441	2,098	5,778	5,086	6,730
Kamëz	469	821	207	78	222	147	291	598	1,017
Kavajë	434	801	894	1,650	1,088	222	1,356	3,429	4,002
Këlcyrë	182	525	180	14	234	21	1	15	32
Klos	116	-	5	25	-	52	69	113	63
Kolonjë	8	75	-	7	86	17	200	51	116
Konispol	-	39	-	23	12	-	128	360	542
Korçë	1,017	949	126	23	65	205	933	960	1,099
Krujë	1,146	566	230	459	179	420	998	429	171
Kuçovë	58	52	3	10	46	71	214	161	11



Kukës	475	448	240	172	155	138	198	36	13
Kurbin	468	583	110	184	174	158	285	296	229
Lezhë	2,131	2,687	1,180	1,818	2,401	1,948	1,135	1,693	2,137
Libohovë	132	74	-	3	-	50	263	528	431
Librazhd	479	751	337	98	74	229	250	272	158
Lushnjë	573	777	244	43	191	233	331	645	558
Malësi e Madhe	209	31	3	3	71	107	2,915	239	626
Maliq	70	69	17	31	39	39	71	123	373
Mallakastër	62	107	28	21	1	3	41	29	374
Mat	225	16	0	32	17	21	123	184	103
Memaliaj	25	30	-	-	34	47	94	93	13
Mirditë	823	375	405	220	469	25	783	35	206
Patos	70	2,282	3	2	116	111	895	44	414
Peqin	63	213	51	4	1	92	189	224	181
Përmet	385	775	801	111	334	90	145	115	451
Pogradec	1,721	1,568	164	114	88	38	130	202	217
Poliçan	87	393	39	18	5	11	178	195	291
Përrenjas	89	228	186	61	41	46	267	330	110
Pukë	114	32	41	169	527	39	136	35	93
Pustec	-	-	-	15	-	-	-	-	-
Roskovec	118	2	3	5	9	7	3	76	149
Rrogozhinë	988	268	129	50	328	228	283	181	201
Sarandë	4,870	9,073	1,938	1,287	516	578	478	1,935	2,592
Selenicë	-	-	-	-	-	23	-	877	475
Shijak	1,697	2,281	1,022	496	486	1,839	2,267	1,762	1,448
Shkodër	725	493	92	408	318	540	371	924	716
Skrapar	11	17	27	103	18	43	1,474	21	43
Tepelenë	146	223	-	42	54	98	187	185	845
Tiranë	1,550	2,186	1,485	1,656	3,042	1,048	2,371	6,059	9,576
Tropojë	81	60	25	367	103	45	2,306	333	634
Ura Vajgurores	191	31	6	12	65	206	318	333	289
Vau i Dejës	1,045	263	372	336	139	67	43	128	266
Vlorë	-	78	22	0	19	20	-	207	1,315
Vorë	3,633	4,505	3,328	3,076	1,509	1,822	4,970	5,678	6,135
<b>Total</b>	<b>900</b>	<b>1,105</b>	<b>566</b>	<b>620</b>	<b>844</b>	<b>493</b>	<b>958</b>	<b>1,803</b>	<b>2,521</b>

**Source:** INSTAT, Ministry of Finance and Economy, [www.financatvendore.al](http://www.financatvendore.al) and authors' calculations

## Notes

1. The latter is not the subject of the study. However, these dimensions are interrelated: according to OECD (2016; 2019), there cannot (and should not) be fiscal decentralization without political and administrative decentralization, otherwise it would be pointless.
2. In this regard, in the last five years decentralization reforms and processes included: (i) undertaking and implementing the Territorial Administrative Reform (TAR) which consolidated 373 local self-government units into 61 new municipalities, effective in 2015; (ii) drafting and

adopting the 'Crosscutting Strategy for Decentralization and Local Governance 2015-2020' and the action plan for its implementation; (iii) drafting and adoption of Law no. 139/2015 'On Local Self-Government', which, among other things, transferred to the local level a number of new functions; (iv) the drafting and adoption of Law no. 68/2017 'On local self-government finance' and a series of laws and bylaws on local public finances. Strengthening local governance and deepening decentralization is potentially expected to strengthen financial and functional positions, increase local fiscal autonomy, increase institutional efficiency, enhance good governance and the enforcement

of citizens' rights, and contribute to the country's economic growth and development (CSDLG, 2015-2020).

3. About 62% of the population lives in only 14 municipalities and over 35% of the population is concentrated in the Durrës - Tirana - Elbasan corridor. The largest municipality in the country generates about three times more per capita revenues than the national average, and has a budget about 307 times higher than the smallest municipality and 14 times higher than the average municipal budget for 2017. Per capita local revenues have increased, but this increase is concentrated in a limited number of municipalities operating in more favourable conditions and dictated by a limited number of local taxes (Toska and Bejko (Gjika), 2018).

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